

Message Text

PAGE 01 STATE 034369

40

ORIGIN EA-13

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-10 NSCE-00 CIAE-00

INR-10 NSAE-00 RSC-01 COME-00 L-02 SAM-01 SPC-01

PRS-01 STR-01 TRSE-00 CIEP-01 OMB-01 DODE-00 PM-03

/063 R

DRAFTED BY EA/PRCM:PTLINCOLN,JR.:EBS

APPROVED BY EA/PRCM - OVARMSTRONG

EB/ISM - WPOLIK (DRAFT) .

EA/PRCM - CWFREEMAN,JR. (DRAFT)

COMM/OEA - JLEVIN (SUBS)

DESIRED DISTRIBUTION

S/S, EB, EA, NSC, COMMERCE, CIA

----- 118006

R 210020Z FEB 74

FM SECSTATE WASHDC

TO USLO PEKING

INFO AMCONSUL HONG KONG

USNMR SHAPE

USCINCEUR

USLOSACLANT

USDEL MC

CINCLANT

C O N F I D E N T I A L STATE 034369

LIMDIS

E.O. 11652: GDS

TAGS: EIND, ETRD, CH, US

SUBJECT: US FERROUS SCRAP EXPORTS TO PRC

REF: PEKING 109

1. DEPT CALLED IN PRCLO COMMERCIAL COUNSELOR CHANG CHIEN-HUA ON FEBRUARY 15 TO DISCUSS FERROUS SCRAP SITUATION. CHANG WAS ACCOMPANIED BY THIRD SECRETARY TUNG CHIH-KUANG. CONFIDENTIAL

PAGE 02 STATE 034369

JOHN J. INGERSOLL, DIRECTOR OF EB'S OFFICE OF INTERNATIONAL COMMODITIES, HEADED UP THE US SIDE. REPRESENTATIVES FROM EA/PRCM, NSC, AND COMMERCE WERE ALSO PRESENT.

2. INGERSOLL OPENED MEETING WITH DETAILED REVIEW OF LICENSING PROGRAM AND ITS RATIONALE. HE CONTRASTED THE OPERATION OF THE PROGRAM IN FIRST QUARTER 1974 WITH THAT OF 1973. INDICATED THAT WE ARE TRYING TO ADMINISTER PROGRAM IN FAIRNESS TO ALL CONCERNED. WE ARE AWARE THAT OUR REGULATIONS MAY CAUSE PROBLEMS FOR NEW CUSTOMERS SUCH AS THE PRC, AND WILL TRY TO BE COOPERATIVE IN OVERCOMING DIFFICULTIES WHEREVER POSSIBLE. UNDER PRESENT REGULATIONS, HOWEVER, OUR FLEXIBILITY IS LIMITED, AND EXCEPTIONAL TREATMENT FOR ANY ONE COUNTRY WOULD TEND TO DEFEAT THE PURPOSE OF THE PROGRAM AND WOULD BE RESENTED BY OUR TRADITIONAL FOREIGN SCRAP BUYERS. THE 100,000-TON CONTINGENCY RESERVE WAS EXPLAINED. INGERSOLL STRESSED THE NEED FOR ADDITIONAL INFORMATION ON PRC SCRAP REQUIREMENTS, IN ORDER FOR US TO BE HELPFUL. HE REVIEWED THE CARRYOVER SITUATION

(FROM THE 1973 PROGRAM) IN DETAIL, NOTING THAT OF THE 586,000 TONS LICENSED BY THE USG FOR SHIPMENT TO THE PRC, ONLY 313,000 TONS WAS ACTUALLY SHIPPED IN 1973 (OVER AND ABOVE THE 121,000 TONS SHIPPED DURING THE FIRST HALF OF THE YEAR BEFORE THE IMPOSITION OF CONTROLS), LEAVING A "CARRYOVER" OF SOME 270,000 TONS. INGERSOLL INDICATED THAT SOME OF THE 1973 LICENSES HAVE NOW EXPIRED. THE US WILL CONSIDER EXTENDING SOME OF THEM, DEPENDING ON THE CIRCUMSTANCES. LEVIN (COMMERCE) INTERJECTED THAT LICENSE EXTENSION IS NOT AUTOMATIC; THE HEAVY CARRYOVER (FROM OTHER COUNTRIES AS WELL AS PRC) COULD MEAN LARGER-THAN-ANTICIPATED EXPORT SHIPMENTS DURING THE FIRST QUARTER OF 1974. US WILL HAVE TO LOOK AT EVERY CASE TO MAKE SURE THERE IS AN ELEMENT OF "EXTREME HARDSHIP". INGERSOLL ADDED THAT IF SHIPPING OR UNLOADING DIFFICULTIES ARE FOUND (AS IMPLIED BY THE SIZE OF THE PRC CARRYOVER), IT IS POINTLESS TO CONSIDER LICENSING ADDITIONAL QUANTITIES OF SCRAP (I.E., BEYOND THE PRC'S QUOTA).

3. CHANG RESPONDED AT THIS POINT BY SAYING THAT HE HAD HEARD THE PRESENTATION WITH INTEREST AND THAT IT IS USEFUL
CONFIDENTIAL

PAGE 03 STATE 034369

TO HAVE A HISTORICAL REVIEW OF THE SITUATION. FOR HIS PART, HE BELIEVED THAT THERE WAS GENERAL UNDERSTANDING ABOUT THE HISTORICAL SITUATION PRIOR TO THE PRESIDENT'S TRIP AND DID NOT PROPOSE TO DWELL ON IT (AN OBVIOUS REFERENCE TO THE US TRADE EMBARGO). CHINESE STEEL SCRAP PURCHASES FROM THE US BEGAN ONLY IN THE SECOND HALF OF 1972, AND SUBSTANTIAL QUANTITIES WERE IMPORTED DURING THE FIRST HALF OF 1973. AFTER A 20-YEAR HIATUS IT IS VERY DIFFICULT TO RESUME TRADE. BY LOOKING AT COMMERCE STATISTICS, HOWEVER, THERE COULD BE NO QUESTION THAT DEMAND WAS HIGH IN THE PRC. NEVERTHELESS, ACTUAL STEEL SCRAP PURCHASES WERE ON THE WHOLE SMALL; CONTRACTS FOR 600,000 TONS WERE SIGNED LAST YEAR TO BE IMPLEMENTED DURING THE

FIRST HALF OF THIS YEAR. CHANG SAID IT WAS HIS BELIEF THAT THOSE WHO SIGNED THE CONTRACTS SHOULD BE PREPARED TO IMPLEMENT THEM; HE WAS SURE THAT THE CHINA NATIONAL METALS AND MINERALS IMPORT AND EXPORT CORP. (MINMETALS) WOULD FULLY HONOR ITS CONTRACT OBLIGATIONS (CHANG MADE THIS POINT SEVERAL TIMES DURING THE CONVERSATION). CHANG WENT ON TO CITE THE SHANGHAI COMMUNIQUE COMMITMENTS TO FACILITATE TRADE AND NOTED THAT THIS UNDERTAKING WAS TAKEN A STEP FURTHER AT THE CONCLUSION OF SECRETARY KISSINGER'S NOVEMBER 1973 VISIT, WHEN IT WAS AGREED THAT BOTH COUNTRIES SHOULD TRY TO TAKE MEASURES TO FACILITATE THE GROWTH AND EXPANSION OF TRADE. MINMETALS CAME TO USLO TO ASK THEIR HELP IN SEEING THAT SIGNED CONTRACTS

ARE IMPLEMENTED. CHANG ADDED THAT US-PRC TRADE, THOUGH GROWING, IS STILL SMALL AND THIS CAUSES DIFFICULTIES IN CHARTERING SHIPS TO CALL AT AMERICAN PORTS AND IN OBTAINING BUNKERS IN US PORTS. CONCERNING PRC FUTURE SCRAP REQUIREMENTS, CHANG SAID THAT AS A FIRST STEP, EXISTING CONTRACTS SHOULD BE HONORED, AND THEN AN INQUIRY WOULD BE MADE WITH MINMETALS TO DETERMINE THE QUANTITY OF SCRAP REQUIRED IN 1974, WHICH PRCLO WILL CONVEY. CHANG SAID THAT HE UNDERSTOOD THAT MINMETALS AND PRCLO HAD BEEN TOLD BY US SHIPPERS THEY WANT TO SHIP SCRAP, BUT HAD BEEN UNABLE TO OBTAIN LICENSES. CHANG SUMMED UP BY SAYING IF BOTH SIDES STICK TO THE SPIRIT OF SECRETARY KISSINGER'S VISIT, TRADE WILL EXPAND AND HE DID NOT EXPECT DIFFICULTIES.

CONFIDENTIAL

PAGE 04 STATE 034369

4. INGERSOLL RESPONDED THAT HE HOPED THERE WAS NO MISUNDERSTANDING; WE WANT TO LOOK FOR WAYS TO BE COOPERATIVE. THE CONTRACTS ENTERED INTO BY MINMETALS WHICH WERE MENTIONED TO USLO ARE A DIFFERENT AND MORE DIFFICULT PROBLEM FROM THE 1973 "CARRYOVER" SINCE NONE OF THE FIRMS MENTIONED BY MINMETALS ARE ELIGIBLE TO SHIP SCRAP UNDER THE PRESENT PROGRAM. ALLOCATIONS TO INDIVIDUAL FIRMS ARE BASED ON THE FIRM'S EXPORT PERFORMANCE TO A PARTICULAR COUNTRY DURING THE BASE PERIOD. THE FIRST QUARTER 1974 PROGRAM WAS ANNOUNCED ON NOVEMBER 28, 1973. AFTER THAT DATE, THE COMPANIES WOULD HAVE KNOWN WHETHER THEY WERE ELIGIBLE FOR LICENSES FOR THE PRC. THE CONTRACTS MUST HAVE HAD ESCAPE CLAUSES.

5. CHANG REPLIED THAT SINCE MINMETALS HAD SIGNED THE CONTRACTS, THEY MEANT TO IMPLEMENT THEM. ALTHOUGH HE HAD NOT PERSONALLY READ THE CONTRACTS, IT IS LIKELY THAT THEY CONTAIN FORCE MAJEURE CLAUSES--ALTHOUGH THERE ARE VARIOUS INTERPRETATIONS OF THIS. THE ANNOUNCEMENT OF LICENSE ALLOCATIONS IS A US INTERNAL MATTER. THERE IS A CHINESE SAYING "IT IS UP TO HIM WHO HAS TIED A KNOT TO UNTIE IT." WE ARE NOT LOOKING FOR WHO IS RESPONSIBLE, BUT IF THE

COMMERCE DEPT WANTED TO SEE THE CONTRACTS IMPLEMENTED, THEY WOULD BE; IF NOT, NOT.

6. INGERSOLL SAID THAT IF AN EXCEPTION WERE MADE FOR THE PRC IN THIS CASE, WE WOULD HAVE TO DO SO FOR EVERYONE ELSE AND THIS WOULD DEFEAT THE PURPOSE OF THE CONTROL PROGRAM; WE WISH TO TREAT ALL COUNTRIES EQUALLY.

7. CHANG SAID HE HAD NO COMMENT ON THIS; "IT IS YOUR AFFAIR."

8. INGERSOLL INDICATED THAT THE USG HAD RELUCTANTLY CONCLUDED THAT THE SCRAP EXPORT CONTROL PROGRAM WOULD HAVE TO BE CONTINUED DURING THE SECOND QUARTER ON MUCH THE SAME BASIS AS PREVIOUSLY; AN ANNOUNCEMENT TO THIS EFFECT WOULD BE MADE THE SAME AFTERNOON (FEBRUARY 15). TURNING TO ANOTHER SUBJECT, INGERSOLL AND LEVIN NOTED THAT SPECIAL ARRANGEMENTS HAVE BEEN MADE TO USE CURRENTLY CONFIDENTIAL

PAGE 05 STATE 034369

INACTIVE US NAVY SHIPBUILDING YARDS TO SCRAP OLD US SHIPS. SCRAP FROM THIS SOURCE CAN BE EXPORTED OUTSIDE QUOTA ALLOCATIONS. (A FIRM IS PERMITTED TO EXPORT 50 PERCENT OF THE INCREASE IN SCRAP FROM THIS SOURCE OVER THE COMPARABLE PERIOD IN 1973.) THE PRCLO OFFICERS WERE GIVEN A LIST OF "SHIPBREAKERS" (COMPANIES WHICH SPECIALIZE IN THIS TRADE) BUT CAUTIONED THAT NUMEROUS FOREIGN BUYERS WOULD UNDOUBTEDLY BE IN CONTACT WITH THESE FIRMS. IN RESPONSE TO A QUERY, CHANG INDICATED THAT THE PRC HAD A SHIPBREAKING CAPABILITY AND HAD IMPORTED SHIPS FOR THIS PURPOSE IN THE PAST. LEVIN SAID IN THAT CASE THE SHIPS PER SE COULD BE EXPORTED. THE MARITIME ADMINISTRATION ANNOUNCES OPPORTUNITIES TO BID ON A MONTHLY BASIS (ALTHOUGH US FIRMS ARE GIVEN FIRST PRIORITY FOR SUCH SALES).

9. THE US REPRESENTATIVES NOTED THAT THE DOMESTIC STEEL INDUSTRY HAS BEEN PRESSING CONGRESS FOR A COMPLETE EMBARGO ON EXPORTS OF US SCRAP. A NUMBER OF BILLS TO THIS EFFECT HAVE BEEN INTRODUCED, ALTHOUGH THE ADMINISTRATION HOPES THEY WON'T PASS. SOME COUNTRIES, INCLUDING SOME SMALL LDCS, DEPEND ENTIRELY ON US SCRAP FOR THEIR STEEL MILLS AND IT WOULD OBVIOUSLY BE A SERIOUS BLOW IF THEY WERE CUT OFF.

10. CHANG RESPONDED TO THIS LAST POINT BY SAYING THAT US-SINO STEEL SCRAP TRADE WAS NOT VERY IMPORTANT; ONLY ABOUT \$38-40 MILLION WAS PURCHASED LAST YEAR. CHANG CONCLUDED BY SAYING HE WAS GLAD TO HAVE HEARD AN EXPLANATION OF THE SITUATION; MINMETALS WILL IMPLEMENT THE CONTRACTS, AND HE CALLED ON THE DEPTS OF STATE AND COMMERCE TO TAKE MEASURES TO HELP.

11. ONE OF THE MAIN PURPOSES OF THIS PRESENTATION FROM THE US POINT OF VIEW WAS TO INDICATE TO THE PRCLO OFFICERS THAT WHILE WE ARE AWARE OF THE EFFECTS OF OUR REGULATIONS ON NEW CUSTOMERS, AND WILL DO WHAT WE CAN TO BE HELPFUL, UNDER THE PRESENT PROGRAM OUR FLEXIBILITY IS LIMITED. DESPITE THIS RATHER FIRM MESSAGE, THE MEETING WAS BUSINESSLIKE AND NONACRIMONIOUS AT ALL TIMES. CHANG SEEMED TO HAVE A GOOD GRASP OF THIS SUBJECT. THE PRCLO OFFICERS INDICATED A NUMBER OF TIMES THAT THE PRESEN-
CONFIDENTIAL

PAGE 06 STATE 034369

TATION WAS " CLEAR," EVEN THOUGH SOME OF THE POINTS MADE

WERE QUITE TECHNICAL. WE WERE SOMEWHAT SURPRISED AT CHANG'S DETAILED RESPONSE (WE HAD EXPECTED A PRO FORMA REPLY, COUPLED WITH A PROMISE TO REFER THE MATTER TO PEKING), PARTICULARLY SINCE THE PRCLO WAS NOT TOLD THE SUBJECT OF THE MEETING IN ADVANCE. CHANG DID NOTE THAT A NUMBER OF US SCRAP DEALERS HAVE BEEN IN TOUCH WITH THE PRCLO. THE SUBSTANCE OF CHANG'S REPLIES WAS NOT UNEXPECTED, OF COURSE, PARTICULARLY THE EMPHASIS ON CONTRACT FULFILLMENT AND THE REPEATED REFERENCES TO COMMITMENTS EMBODIED IN THE SHANGHAI COMMUNIQUE AND IN THE COMMUNIQUE ISSUED AT THE CONCLUSION OF THE SECRETARY'S NOVEMBER 1973 VISIT.

12. USLO MAY WISH TO FOLLOW UP DIRECTLY WITH MINMETALS TO REITERATE POINTS MADE IN WASHINGTON DISCUSSION AND TO SEE IF THERE ARE ANY FURTHER ISSUES MINMETALS WOULD LIKE CLARIFIED. (CHANG AT ONE POINT SAID IT WOULD BE USEFUL TO CONVEY INFORMATION ON FERROUS SCRAP DIRECTLY TO MINMETALS AS THE INTERESTED PRC GOVERNMENT AGENCY.) TALKING POINTS AND COPIES OF ALL MATERIALS GIVEN PRCLO ARE BEING POUCHED. REGULATIONS FOR SECOND QUARTER PROGRAM WILL BE SENT BY SEPTTEL. IN VIEW OF CHANG'S RATHER EXTENDED REMARKS, IT IS POSSIBLE THAT THERE MAY BE LITTLE FURTHER CHINESE RESPONSE ON THIS SUBJECT. NEVERTHELESS, YOU SHOULD REPORT PROMPTLY ANY REACTIONS, AND PARTICULARLY ANY INDICATION THAT PRC MIGHT WISH A PORTION OF CONTINGENCY RESERVE. BEGIN FYI: WE HAVE IMPLIED TO PRCLO THAT IT MIGHT BE POSSIBLE TO ALLOCATE A PORTION TO THE PRC, BUT IN VIEW OF THE NUMEROUS OTHER DEMANDS ON THIS SCRAP, WE WOULD RATHER NOT DO SO WITHOUT SOME INDICATION THAT THE PRC CAN USE IT. PRESSURE FROM OTHER FOREIGN CUSTOMERS, PLUS THE NECESSITY OF MAKING SALES AND SHIPPING ARRANGEMENTS BEFORE THE END OF THE QUARTER, MAKES IT INCREASINGLY DIFFICULT TO HOLD ASIDE 40,000 TON PORTION FOR PRC. USG WOULD LIKE TO FULLY ALLOCATE CONTINGENCY RESERVE IN NEXT TWO OR THREE WEEKS. WE ARE CONTINUING TO EVALUATE PRC SCRAP SITUATION AND WEIGHING POSSIBLE STEPS WE CAN TAKE TO ALLEVIATE PROBLEM. END FYI. RUSH

CONFIDENTIAL

PAGE 07 STATE 034369

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: Z
Capture Date: 27 JUL 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: IRON, EXPORTS, STOCKPILE DISPOSAL, FERROALLOYS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 FEB 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE034369
Document Source: ADS
Document Unique ID: 00
Drafter: EA/PRCM:PTLINCOLN,JR.:EBS
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740268/abbrzcif.tel
Line Count: 276
Locator: TEXT ON-LINE
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: PEKING 109
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2002 by shawdg>; APPROVED <30 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US FERROUS SCRAP EXPORTS TO PRC
TAGS: EIND, ETRD, CH, US
To: PEKING INFO HONG KONG
USNMR SHAPE
USCINCEUR
USLOSACLANT
MC
CINCLANT
Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005